



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	Enrolled	Bill No:	AB 923
Tax:	California Tire Fee	Author:	Firebaugh, et al.
Related Bills:			

This analysis will only address the bill's provisions that impact the Board.

BILL SUMMARY

Among other things, this bill would:

- Increase the California tire fee from one dollar (\$1.00) to one dollar and seventy-five cents (\$1.75) per tire, until December 31, 2006, and decrease the fee after that date to one dollar and fifty cents (\$1.50). Commencing January 1, 2015, the fee would decrease to seventy-five cents (\$0.75) per tire.
- Require the Board of Equalization (Board) to transfer a specified amount of the California tire fee to the Air Pollution Control Fund, until December 31, 2014.
- Decrease a retail seller's reimbursement for any costs associated with the collection of the fee from 3 percent to 1.5 percent, until December 31, 2014.

ANALYSIS

Current Law

Under existing law, Section 42885 of the Public Resources Code imposes a California tire fee of one dollar (\$1.00) per tire on every person who purchases a new tire, as defined, until December 31, 2006, and seventy-five cents (\$0.75) per tire after that date.

After deducting 3 percent of the total fees as reimbursement for costs associated with the collection of the fee, a retailer must remit the fees to the Board for deposit in the California Tire Recycling Management Fund.

The Board administers and collects the California tire fee on behalf of the California Integrated Waste Management Board (CIWMB) in accordance with the Fee Collection Procedures Law.

Proposed Law

Among other things, this bill would amend, repeal and add Section 42885 of the Public Resources Code to increase the California tire fee from one dollar (\$1.00) to one dollar and seventy-five cents (\$1.75) per tire, until December 31, 2006, and decrease the fee after that date to one dollar and fifty cents (\$1.50). Of the revenues generated by the fee increase, the Board would be required to transfer an amount equal to seventy-five cents (\$0.75) per tire on which the fee is imposed to the Air Pollution Control Fund, until December 31, 2006, and fifty cents (\$0.50) after that date. In addition, the percentage of the fee that a retail seller may retain as reimbursement for any costs associated with the collection of the fee would decrease from 3 percent to 1.5 percent. These amendments would remain in effect only until December 31, 2014, and as of that date are repealed unless a later enacted statute deletes or extends that date.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Operative January 1, 2015, this bill would add Section 42885 to the Public Resources Code as it reads under existing law. As such, Section 42885 would impose a California tire fee on every person who purchases a new tire of seventy-five cents (\$0.75) per tire. In addition, the percentage of the fee that a retail seller may retain as reimbursement for any costs associated with the collection of the fee would be restored to 3 percent.

The bill would become effective January 1, 2005.

COMMENTS

1. **Sponsor and purpose.** This bill sponsored by the author and is intended to provide substantial and long-term funding sources for air pollution reduction incentive programs that will cut smog forming pollution by up to seven tons per day and substantially lower children's exposure to toxic diesel particulate emissions.
2. **Key Amendments.** The **August 27, 2004**, amendments revise the amount of the California tire fee increases and clarify the amount of the fee imposed to be transferred to the Air Pollution Control Fund.

The **August 23, 2004**, amendments delete the previous provisions of the bill. The bill now would increase the amount of the California tire fee to one dollar and fifty-cents (\$1.50) per tire and decrease to one and a half percent (1.5%) a retail seller's reimbursement for any costs associated with the collection of the fee, until December 31, 2014. After that date, the fee would decrease to seventy-five cents per tire (\$0.75) and a retail seller's reimbursement would be restored to the current 3 percent.

The **June 4, 2003 amendments** add provisions that partially reestablish the farming exemptions. While the bill would continue to repeal the existing agricultural-related exemptions (including racehorse breeding stock and timber harvesting equipment), these amendments would partially reestablish the exemption for diesel fuel and farm equipment and machinery by extending it to solely "small farmers". Also, the bill would create a one-year exemption for farm tractors purchased by any farmer. The **May 1, 2003 amendments did not affect the Board.** These amendments make changes to the law that would fall under the purview of the Franchise Tax Board. The **April 24, 2003** amendments added the provisions to repeal the exemptions. The introduced version of the bill was intent language only.

3. **This bill would require that the Board's contract with the CIWMB be renegotiated.** This bill proposes to increase the California tire fee on and after January 1, 2005, which is in the middle of the Board's current contract with the CIWMB to administer the fee for fiscal year 2004-05. In order to begin to revise reporting forms and develop computer programs, the Board would need to renegotiate its contract with the CIWMB to cover the Board's start-up costs that are not already identified in the 2004-05 contract.
4. **Board staff does not foresee any administrative problems with this measure.** Enactment of this measure would not materially affect the Board's administration of the California Tire Fee Law.

COST ESTIMATE

Costs would be incurred in notifying feepayers, revising returns and publications, reprogramming, developing and carrying out compliance and audit efforts to ensure proper reporting. These costs were estimated to be \$327,800 in fiscal year 2004-05, \$474,100 in fiscal year 2005-06, and \$478,500 annually thereafter.

REVENUE ESTIMATE

Background, Methodology, and Assumptions

Under existing law, the California tire fee is one dollar (\$1.00) per tire prior to January 1, 2007 and seventy-five cents (\$0.75) thereafter. The California tire fee was increased from twenty-five cents (\$0.25) to one dollar (\$1.00) per tire on January 1, 2001.

According to the Board's Excise Taxes Division, the California tire fee generated revenues in the last three fiscal years as follows:

Fiscal Year	Revenue	Number of Tires	Percentage Increase from Prior Fiscal Year
2001-02	\$31.4 million	31.4 million tires	
2002-03	\$31.9 million	31.9 million tires	1.6 percent
2003-04	\$33.1	33.1 million tires	3.8 percent

This bill would increase the tire fee, on and after January 1, 2005, to one dollar and seventy-five cents (\$1.75). If we assume that tire purchases in FY 2004-05 would not sustain any significant decline or increase, and if we assume a growth of 2 percent*, total tire consumption in FY 2004-05 would be 33.8 million tires (FY 2003-04 33.1 million tires \times 2% = 33.8 million tires). It is estimated that \$46.5 million in revenues would be generated in FY 2004-05 (Jul – Dec 2004: 16.9 million tires \times \$1.00 = \$16.9 million, + Jan – Jun 2005: 16.9 million tires \times \$1.75 = \$29.6).

In FY 2005-06, we estimate 34.4 million tire purchases (FY 2004-05 33.8 million tires \times 2% = 34.4 million tires). This would generate an estimated \$60.2 million in revenues (34.4 million tires \times \$1.75 = \$60.2 million).

On and after January 1, 2007, the fee would decrease to one dollar and fifty cents (\$1.50) per tire. In FY 2006-07, we estimate 35.1 million tire purchases (FY 2005-06 34.4 million tires \times 2% = 35.1 million tires). It is estimated that \$57.2 million in revenues would be generated in FY 2006-07 (Jul – Dec 2006: 17.6 million tires \times \$1.75 = \$30.8 million, + Jan – Jun 2005: 17.6 million tires \times \$1.50 = \$26.4).

* Rubber Manufacturer's Association projects total tire shipment annualized growth of 2% through 2009

Revenue Summary

This bill would generate revenues as follows:

Fiscal Year	\$ Millions
2004-05	46.5
2005-06	60.2
2006-07	57.2

Analysis prepared by: Cindy Wilson 916-445-6036 09/02/04

Revenue estimate by: Ronil Dwarka 916-445-0840

Contact: Margaret S. Shedd 916-322-2376

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